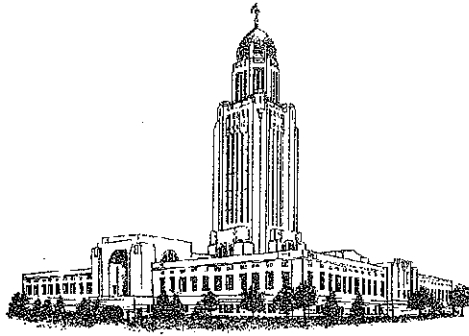


# Nebraska State Legislature

SENATOR LAVON HEIDEMANN

District 1  
62058 719th Road  
Elk Creek, Nebraska 68348  
(402) 335-2689

Legislative Address:  
State Capitol  
PO Box 94604  
Lincoln, Nebraska 68509-4604  
(402) 471-2733  
lheidemann@leg.ne.gov



GOVERNOR'S OFFICE

Dec 27 2007 COMMITTEES

Chairperson - Appropriations  
Nebraska Retirement Systems  
Executive Board  
Reference  
Building Maintenance  
Legislative Performance Audit

Governor Dave Heineman  
P.O. Box 94848  
Lincoln, NE 68508

December 26, 2007

Dear Governor Heineman,

The following is a letter that I mailed to my colleagues in the Legislature regarding the status of the budget due to the latest TEEOSA estimates:

I have enclosed a revised General Fund Financial Status that projects substantially lower ending balances through this budget biennium and for the following biennium, through June 30, 2011.

The worsening financial picture has recently been brought about by revisions to estimated costs for K-12 school aid (TEEOSA). I received a letter December 21<sup>st</sup> from the Department of Education (attached) updating TEEOSA cost estimates based on initial FY2006-07 annual financial report (AFR) data. This AFR information is the core data used for certification of the FY 2008-09 TEEOSA aid. The net additional cost of this revision is contained on line 21a of the enclosed "status." Future years' costs are projected using the methods described in the November Tax Rate Review Committee report currently posted to the UNINET and the Legislature's web site. In that report were October estimates of higher TEEOSA costs, shown on line 21 of the status and described in the report. The changes received this month are in addition to the October revisions.

These higher estimates are not driven by a single factor but reflect the cumulative impact of multiple items ranging in cost from \$1.9 million to \$9.6 million, including slightly higher than projected disbursements and lower than projected federal funds, other receipts and yield from local effort rate. Note that these revisions are still estimates. The final FY2008-09 aid number won't be certified until February, 2008.

Due to the changes described in the Department's letter, the projected ending balance for the General Fund declines to just under \$13 million above the minimum reserve requirement of 3%, substantially less than the \$52 million in the "Tax Rate Review" report. Unfortunately, the ongoing effect of the change through the next biennium increases the projected reserve short-fall

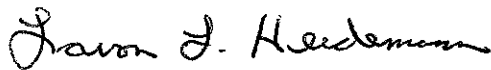
from \$99.7 million to \$240.4 million based on current expenditure and revenue assumptions through June 30, 2011.

Please note that this revised status is based on revenue forecasts produced in October 2007. Since that time, there have been increased concerns about an economic recession that could possibly lower future revenue estimates. The next official revenue forecast will be late February 2008, however, it is my belief there are substantial risks not yet accounted for in our financial outlook.

Regardless of what we ultimately plan for, I need to remind you of the compounding effect decisions this session will have in future years. Spending and tax actions that are intended to be sustained each year affect the next biennium balance by a multiple of three. As an example, assuming the \$12.9 million excess reserve projected in 08-09 is used for annually sustained items, the ending balance for 2010-11 declines another \$39 million. Though cash reserve transfers can be made to support the General Fund, such transfers should be considered as a "one-time" source, or used to meet current obligations through an economic down cycle to minimize reliance on tax increases and budget cuts to balance the budget. I am concerned we may be approaching such a time in the next year or two.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Lavon J. Heidemann".

Lavon Heidemann

# General Fund Financial Status

## With Revised TEEOSA Estimates (December)

December 21, 2007	Current Yr FY2006-07	Biennial Budget FY2007-08	FY2008-09	Following Biennium FY2009-10	FY2010-11
<b>1 BEGINNING BALANCE</b>					
2 Beginning Cash Balance	565,963,976	591,204,274	307,532,249	223,901,762	116,132,756
3 Cash Reserve transfers-automatic	(259,929,524)	(191,436,773)	(68,814,000)	0	0
4 Carryover obligations from FY07	0	(171,012,056)	0	0	0
5 Allocation for potential deficits	0	0	(5,000,000)	(5,000,000)	(5,000,000)
6 Unobligated Beginning Balance	306,034,452	228,755,445	233,718,249	218,901,762	111,132,756
<b>7 REVENUES</b>					
8 Net Receipts (Oct 07 NEFAB)	3,403,644,627	3,458,000,000	3,589,000,000	3,792,000,000	4,014,000,000
9 General Fund transfers-out	(9,140,000)	(128,700,000)	(120,200,000)	(120,200,000)	(120,200,000)
10 General Fund transfers-in	in receipts	in forecast	in forecast	0	0
11 Cash Reserve transfers	15,674,107	60,177,767	54,990,505	0	0
12 2008 General Fund transfers-out	0	0	0	0	0
13 2008 General Fund transfers-in	0	0	0	0	0
14 2008 Cash Reserve transfers	0	0	0	0	0
15 2008 Revenue Bills	0	0	0	0	0
16 General Fund Net Revenues	3,410,178,734	3,389,477,767	3,523,790,505	3,671,800,000	3,893,800,000
<b>17 APPROPRIATIONS</b>					
18 Appropriations Per 2007 Session	3,125,008,912	3,305,700,963	3,480,556,576	3,480,556,576	3,480,556,576
19 Mainline budget adjustments (following biennium)	0	0	0	189,861,730	384,953,150
20 2008 Mainline Budget Changes	0	5,000,000	0	0	0
21 2008 Revised TEEOSA estimates (Oct)	0	0	13,841,372	52,607,988	101,937,376
21a 2008 Revised TEEOSA estimates (Dec)	0	0	39,209,044	51,542,712	51,042,719
22 2008 State Claims	0	0	0	0	0
23 2008 "A" Bills	0	0	0	0	0
24 General Fund Appropriations	3,125,008,912	3,310,700,963	3,533,606,992	3,774,569,006	4,018,489,821
<b>25 ENDING BALANCE</b>					
26 Dollar ending balance (Financial Status as shown)	591,204,274	307,532,249	223,901,762	116,132,756	(13,557,064)
27 Dollar ending balance (at Minimum Reserve)			210,996,751		226,878,692
28 Excess (shortfall) from Minimum Reserve			12,905,012		(240,435,756)
29 Biennial Reserve (%)			3.2%		-0.2%
30 Annual % Change - Appropriations	7.0%	3.9%	6.9%	6.8%	6.5%
31 Two Year Average	7.4%	--	5.4%	--	6.6%
32 Est. Revenue Growth (rate/base adjusted)	7.4%	5.6%	4.3%	4.5%	5.8%
33 Two Year Average	8.7%	--	4.9%	--	5.2%
33 Five Year Average	6.6%	--	7.0%	--	5.2%
34 Structural Revenues vs Approp.	269,495,715	18,599,037	(64,806,992)	(102,769,006)	(124,689,821)

<b>CASH RESERVE FUND</b>	FY2006-07	FY2007-08	FY2008-09	FY2009-10	FY2010-11
Beginning Balance	273,616,790	516,087,791	542,096,797	540,080,292	540,080,292
Excess of certified forecasts (line 3 in Status)	259,929,524	191,436,773	68,814,000	0	0
To/from Gen Fund per current law	(15,674,107)	(60,177,767)	(54,990,505)	0	0
To Nebr Capital Construction Fund (NCCF)	(1,784,416)	(87,000,000)	(9,590,000)	0	0
To Job Training Cash Fund	0	(5,000,000)	(5,000,000)	0	0
To Microenterprise Development Program	0	(1,000,000)	(1,000,000)	0	0
To Building Entrepreneurial Communities Act	0	(250,000)	(250,000)	0	0
To/From state employee health insurance fund	0	(12,000,000)	0	0	12,000,000
To/from K-12 school reorg. incentive fund	0	0	0	0	0
Projected Ending Balance-Cash Reserve Fund	516,087,791	542,096,797	540,080,292	540,080,292	552,080,292

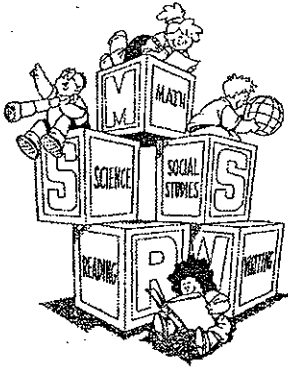
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# NEBRASKA DEPARTMENT OF EDUCATION

Douglas D. Christensen, Commissioner  
Polly Feis, Deputy Commissioner

301 Centennial Mall South ■ P.O. Box 94987 ■ Lincoln, Nebraska 68509-4987  
Telephone (Voice/TDD): 402-471-2295 ■ Fax: 402-471-0117 ■ www.nde.state.ne.us



December 21, 2007

The Honorable David Heineman  
Governor of Nebraska  
State Capitol Building  
Lincoln, NE 68509

Senator Ron Raikes, Chair  
Education Committee  
State Capitol Building  
Lincoln, NE 68509

Senator Lavon Heidemann, Chair  
Appropriations Committee  
State Capitol Building  
Lincoln, NE 68509

Dear Governor Heineman, Senator Raikes & Senator Heidemann:

The Department of Education is required by State law to annually provide an estimate of the necessary funding level for State Aid pursuant to the Tax Equity and Educational Opportunities Support Act. On November 8, 2008, we provided you with an estimate for 2008/09 State Aid of approximately \$862,000,000. Insurance Premium Tax was estimated to be approximately \$15,500,000 and total General Funds necessary to fund 2008/09 State Aid was estimated to be approximately \$846,500,000.

Since this estimate was provided to you, we have reviewed the 2006/07 school district annual financial reports and determined that the general fund operating expenditures used in the 2008/09 State Aid calculation will be higher than estimated. The Department of Education has worked with the Legislative Fiscal Office and DAS Budget Division to evaluate the fiscal impact of this increase. We believe the increase in general fund operating expenditures will have an impact on 2008/09 State Aid, therefore, we are revising our estimate.

We estimate the amount necessary to fund 2008/09 State Aid pursuant to the Tax Equity and Educational Opportunities Support Act will be approximately \$901,000,000. Insurance Premium Tax is estimated to be approximately \$15,500,000. Total General Funds necessary to fund 2008/09 State Aid is now estimated to be approximately \$885,500,000.

If you have any questions about the revised estimate of 2008/09 State Aid, please contact Russ Inbody in the Office of Finance & Organization Services at 471-4320.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Doug Christensen', written over a horizontal line.

Douglas Christensen, Ph.D.  
Commissioner of Education

cc: Gerry Oligmueller, State Budget Administrator  
Mike Calvert, Director of Fiscal & Program Analysis

## State Board of Education

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